



An Energy Efficiency Workshop & Exposition

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Kansas City, Missouri

***Determining the Interest Rate for  
Federal Energy Efficiency Projects***

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- **Starting Point**

- Establishing the Benchmark
- How are credit risks different from Benchmark?
- What is the term
- What is the interest rate on other similar transactions
- The state of the financial markets

o **Benchmarks**

- Resembling the underlying credit
- Easily identified
- Common usage
- Matched terms
- Choice is US Treasuries

- o **Setting the Spread**

- What is the credit profile
- What is the weakest link
- Length of term
- Termination risk
- Spreads on similar transactions
- Market appetite

- **Decide on Interest Rate**
  - Benchmark plus spread
  - Add transaction costs
  - Add fees/profit
  - Provide for risk mitigants
  - Add for timing – contingency/hedging

## ***Why are rates so high?***

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- ***Issues in Setting Interest Rates***
  - Capital cost repayment not certain
  - Performance risks
  - Termination risk
  - Specialty financing
  - Hedging risk
  - Inconsistencies